

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE**

FROM: MICHAEL LOUIS

DATE: FEBRUARY 24, 2014

**RE: IDAHO POWER'S ANNUAL COMPLIANCE FILING TO UPDATE RULE
H CHARGES AND CREDITS; TARIFF ADVICE NO. 13-07**

BACKGROUND

On December 20, 2013, Idaho Power ("Company") filed a tariff advice with the Commission proposing to update costs in its Rule H tariff, New Service Attachments and Distribution Line Installations or Alterations. The Company is required to make an annual compliance filing to update Rule H charges and credits as required by Commission Order Nos. 30853 and 30955. The Company also updates the general overhead rate relating to new service attachments and distribution line installations and alterations under its Rule H tariff as required by Commission Order No. 32472. After initial Staff review, the Company discovered a mistake in labor rates used to establish underground distance charges. On January 27, 2014, the Company filed a supplement to the tariff advice reflecting the correction.

STAFF ANALYSIS

The Company is proposing four changes in this year's Rule H compliance filing: (1) adjustment to the general overhead rate which is applied to all work order costs (except engineering charges); (2) updates to standard service attachment charges; (3) revision to line installation and attachment allowances; and (4) an update to the rate charged for engineering services required by customers for line installations and alterations. Staff's analysis reflects all corrections included in the Company's supplemental filing.

Overhead Rate

The Rule H general overhead rate which is applied to all vehicle, labor, and material direct cost decreased from last year's rate of 19.69 percent to 17.49 percent. Staff has reviewed the updated calculation of the general overhead rate and believes it to be accurate and reasonable. In addition, the stores overhead rate which is only applied to direct material cost used to determine this year's Standard Charges and Allowances decreased from 11 percent to 7 percent. These reductions moderated increases in line installation direct cost resulting in small overall increases and in some cases, decreases from last year's rates. Staff recommends approval of the general overhead rate.

Standard Charges

Standard charges are established for both base and distance charges for the installation of underground services, temporary service attachments, and return trip services. As mentioned earlier, reduction in overhead has moderated increases in the direct cost of these charges resulting in overall rates that range from a reduction of 1.4 percent to an increase of 5.8 percent. However, the direct cost for these charges has increased in all categories (vehicle, labor, and material) resulting in direct cost increases ranging from 1.12 percent to a little over 11 percent from last year's rates. The only exception is a reduction in material cost for customers that provide their own trenching and conduit.

It appears there are large reductions in direct labor cost in the distance charge for Company installed underground facilities but this was due to the Company shifting equal amounts of cost from labor to the vehicle cost category. In actuality, direct labor costs have risen due to labor rates increasing from \$55/hour to \$56/hour. Staff agrees that this re-categorization reflects costs more accurately and believes the increase in the labor rate is justified. Staff reviewed all direct cost increases for standard charges and believes they are reasonable.

Allowances

Allowances against the total cost of overhead and underground installations and service attachments are given for the cost of standard terminal facilities and line installation costs. Total direct cost of allowances for single phase and three phase installations has increased between 12 and 17 percent, respectively. Again, these costs are moderated by reduced overhead rates

resulting in overall increases of approximately 9 and 5 percent. The largest increases came as a result of higher material cost of standard transformers and increased labor cost due to higher labor rates. Staff believes the cost increases are justified.

Engineering Services

Engineering cost for line installations and alterations have increased from \$61 per hour to \$63 per hour in spite of a reduction in the engineering overhead rate from 12.75 percent in last year's rate to 10.75 percent for this year. The increase is driven by a 3 percent rise in engineering wage rates in combination with an increase in the benefit rate of 4.7 percent.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's proposed general overhead rate of 17.49 percent and changes to the Rule H charges and allowances reflected in the Company's original filing dated December 20, 2013 and subsequent modifications contained in the Company's supplemental filing dated January 27, 2014. Staff recommends an effective date of March 15, 2014.

COMMISSION DECISION

Does the Commission wish to approve the Company's proposed updates to the general overhead rate and the Rule H charges and allowances with an effective date of March 15, 2014?



Michael Louis

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